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A Comparative Study on Large and Mid Cap with Reference to Impact of Dividend Policy and EPS on Share Price

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Abstract: ***This study explores how earnings and dividend - related metrics—such as EPS, DPS, DPO, and DY-affect stock prices of Large - Cap and Mid - Cap companies. Large - Cap firms, being stable and focused on consistent dividends, may see stronger stock price reactions to dividend policies. In contrast, Mid - Cap companies, which are growth - oriented and reinvest more earnings, are likely to see stock prices more influenced by earnings potential. The research examines whether stock prices of these companies respond similarly or differently to these financial indicators, based on their market capitalization.***

Keywords: Earnings Per Share (EPS), Dividend Per Share (DPS), Dividend Payout Ratio (DPO), Dividend Yield (DY), Large - Cap companies, Mid - Cap companies, Market capitalization

1. Introduction

The valuation of stocks and their price movements are influenced by a range of financial factors, with earnings and dividend - related metrics playing a significant role in shaping investor decisions. Among these, Earnings Per Share (EPS), Dividend Per Share (DPS), Dividend Payout Ratio (DPO), and Dividend Yield (DY) are critical indicators used to assess a company's profitability, financial stability, and return potential. These financial variables not only reflect a company's past and present performance but also provide insights into its future growth prospects. However, the degree to which these indicators impact stock prices varies based on the company's market capitalization. Large - Cap and Mid - Cap companies follow different financial strategies, affecting how their stock prices react to earnings and dividend - related metrics.

Large - Cap companies are typically well - established, financially stable, and characterized by consistent earnings and regular dividend distributions. Their strong market presence and lower risk profile make them attractive to investors seeking steady returns. As a result, dividend policies in Large - Cap firms may have a stronger influence on stock price movements since investors prioritize predictable cash flows and lower volatility. In contrast, Mid - Cap companies, though smaller in market capitalization, are often in a phase of rapid growth and reinvest a larger portion of their earnings into business expansion.

2. Literature Review

- **Mahirun et al. (2023)** studied LQ45 companies in Indonesia (2012–2021) and found that ROE and DPR positively impacted stock prices, while PER and DER had no significant effect. DPR did not mediate the link between funding policy, firm value, and stock prices.
- **Koleosho et al. (2022)** analyzed Nigerian firms (2010–2020) and found that DPR significantly affected share price volatility, while DY, DPS, and leverage showed no significant impact.
- **Usman et al. (2021)** examined Indonesian manufacturing firms (2014–2018) and found DPS had a positive effect on share prices, while DY had a negative effect.
- **Arsal (2021)** found that for Indonesian food companies (2014–2017), EPS positively affected firm value, while DPS showed no significant impact.
- **Raj & Dalvadi (2020)** studied seven Indian public sector banks (2014–2019) and found that liquidity, size, and leverage significantly influenced share prices, while profitability, risk, and dividend policy showed positive but insignificant effects.
- **Kaushik et al.** examined five Indian IT companies (2018–2022) and found that dividend - related factors (DPS, PE, EPS) affect profitability (ROE, ROA), offering insights into how dividend policy influences firm performance in the tech sector.
- **Sridhar & Sundar (2021)** analyzed NSE pharma sector firms (2011–2020) and found that EPS, DPS, and PE ratio did not consistently impact stock prices, suggesting these variables vary in importance across sectors and conditions.
- **Bhalla (2023)** found no overall link between dividend policy and stock price volatility in NIFTY 100 firms. Sector - wise, FMCG, financial services, and IT showed some negative impacts. The study supports the dividend irrelevance theory.

Research Problem

The relationship between dividend policy, earnings metrics, and stock prices is widely studied, but variations in these effects across different market contexts and company sizes remain underexplored. While studies have investigated the impact of dividend policy and earnings indicators on stock prices, limited attention has been given to how these relationships differ between Large - Cap and Mid - Cap companies. The financial strategies and investor expectations for these two groups are distinct, and understanding how dividend and earnings - related factors influence stock prices within these groups remains a crucial area for research.

Research Gap
Existing literature focuses predominantly on the general impact of dividend policies on stock prices without differentiating between companies based on their market capitalization. Although studies have shown that dividend payout ratio, earnings per share (EPS), and other financial metrics influence stock prices, the way these factors impact Large - Cap versus Mid - Cap companies is still not well understood. This gap suggests that a nuanced approach is needed to understand how financial metrics, such as dividend policy and EPS, affect stock prices in different segments of the market.

Research Problem Statement
The impact of earnings and dividend - related metrics on stock prices is not uniform across companies of varying market capitalizations. Specifically, it is unclear how Large - Cap and Mid - Cap companies respond differently to Dividend Per Share (DPS), Earnings Per Share (EPS), and other financial indicators. This research seeks to explore how these financial variables influence stock price movements in Large - Cap and Mid - Cap firms and whether the market reacts differently based on the company's financial strategies and investor expectations.

Research Objective
1) To analyze the impact of EPS, DPS, DPO, and DY on stock prices in Large - Cap and Mid - Cap companies.
2) To evaluate the differences in stock price behavior concerning earnings and dividend policies across these two market segments.
3) To determine which financial metric has the strongest influence on stock price movements in each category.

3. Research Methodology

Type of Research
This study follows a quantitative research design, focusing on numerical data to analyze the relationship between Dividend Policy, Earnings Per Share (EPS), and Share Price for Large - Cap and Mid - Cap companies. The goal is to provide a detailed statistical comparison between the two categories of companies to understand how dividend policies and EPS influence share prices over a 10 - year period.

Dependent Variable:
Stock Price: The stock price of the company, reflecting its market value, is the dependent variable in this study. The research aims to assess how various financial metrics (EPS, DPS, Dividend Yield, DPO%) influence stock prices for both large - cap and mid - cap companies.

Independent Variable:
- **Earnings Per Share (EPS):** A measure of profitability, calculated as net income divided by the number of outstanding shares. EPS will be analyzed for its effect on stock prices.
- **Dividend Per Share (DPS):** The amount of cash dividend paid out to each outstanding share. DPS will be studied to determine its impact on stock prices.
- **Dividend Yield (DY):** The annual dividend paid divided by the stock price. It will be assessed to understand its influence on stock price valuation.
- **Dividend Payout Ratio (DPO%):** The proportion of earnings paid out as dividends. This variable will be analyzed to see how dividend payout strategies affect stock prices, especially in large - cap and mid - cap firms.

Sampling Methods
The study will use purposive sampling (also known as judgmental sampling), a non - probability technique where companies are selected based on specific criteria relevant to the research. The sample consists of 10 large - cap and mid - cap companies ensuring the representativeness of each market capitalization group.

Data Collection
The study will rely solely on secondary data. The required financial data, such as Earnings Per Share (EPS), Dividend Per Share, Dividend Payout, Dividend Yield and Share Prices, will be gathered from publicly available sources, primarily the Screener website, as well as other financial platforms.

Time Period: The data collection period will span 10 years, which allows for a comprehensive analysis of the long - term effects of EPS and Dividend Policy on share prices.

Data Components:
Key financial data to be collected includes:
EPS (Earnings Per Share)
Dividend Per Share (DPS)
Dividend Payout Ratio (DPR)
Dividend Yield (DY)
Share Prices (Annual closing prices)
Financial Statements (Balance Sheet, Income Statement, Cash Flow)

Statistical Tools for Data Analysis:
- **Descriptive Statistics:** Summarize data using measures like mean, median, standard deviation, and range to identify patterns in EPS, Dividend Policy, and Share Prices across large - cap and mid - cap companies.
- **Correlation Analysis:** Assess relationships between EPS, Dividend Policy (DPS, Dividend Yield), and Share Prices to understand their associations.
- **Regression Analysis:** Use multiple regression to evaluate the impact of EPS and Dividend Policy on Share Price, with separate models for large - cap and mid - cap companies to compare their effects.

4. Data Analysis

Descriptive Analysis
Large Cap

Price		EPS		Dividend Payout		Dividend Per Share		Dividend Yield	
Mean	830.31	Mean	32.54	Mean	0.47	Mean	14.71	Mean	0.02
Standard Error	107.40	Standard Error	3.94	Standard	0.04	Standard	2.68	Standard	0.00
Median	724.62	Median	31.12	Median	0.40	Median	10.50	Median	0.02
Standard Deviation	339.64	Standard Deviation	12.46	Standard	0.13	Standard	8.47	Standard	0.01
Sample Variance	115353.02	Sample Variance	155.20	Sample V	0.02	Sample V	71.67	Sample V	0.00
Kurtosis	-1.07	Kurtosis	-1.45	Kurtosis	-1.85	Kurtosis	-1.28	Kurtosis	-0.89
Skewness	0.59	Skewness	0.25	Skewness	0.57	Skewness	0.75	Skewness	0.73
Range	966.45	Range	34.90	Range	0.30	Range	22.10	Range	0.02
Minimum	470.71	Minimum	16.93	Minimum	0.36	Minimum	6.45	Minimum	0.02
Maximum	1437.16	Maximum	51.82	Maximum	0.66	Maximum	28.56	Maximum	0.03
Sum	8303.10	Sum	325.41	Sum	4.69	Sum	147.08	Sum	0.22
Count	10.00	Count	10.00	Count	10.00	Count	10.00	Count	10.00

Interpretation: The data analysis reveals that the average stock price is ₹830.31, showing high volatility with a range of ₹966.45. The EPS (₹32.54) has a moderate spread, indicating stable earnings performance. The dividend payout ratio (47%) suggests a shareholder - friendly approach, with a dividend per share of ₹14.71. However, the dividend yield remains low at 2%, indicating that price appreciation may be a key driver of returns. Negative kurtosis across variables suggests a relatively uniform distribution with fewer extreme values.

Mid Cap

Price	EPS	Dividend Payout	Dividend Per Share	Dividend Yield
Mean	286.15 Mean	17.32 Mean	0.26 Mean	4.11 Mean	0.02
Standard Error	30.13 Standard Error	1.72 Standard	0.02 Standard	0.57 Standard	0.00
Median	267.56 Median	16.54 Median	0.25 Median	3.89 Median	0.02
Standard Deviation	95.28 Standard Deviation	5.43 Standard	0.06 Standard	1.80 Standard	0.01
Sample Variance	9077.90 Sample Variance	29.44 Sample V	0.00 Sample V	3.24 Sample V	0.00
Kurtosis	0.24 Kurtosis	-0.26 Kurtosis	-1.79 Kurtosis	-1.78 Kurtosis	-1.59
Skewness	0.64 Skewness	0.09 Skewness	0.23 Skewness	0.22 Skewness	-0.36
Range	320.97 Range	17.65 Range	0.15 Range	4.85 Range	0.02
Minimum	153.15 Minimum	8.04 Minimum	0.19 Minimum	1.96 Minimum	0.01
Maximum	474.12 Maximum	25.69 Maximum	0.35 Maximum	6.81 Maximum	0.03
Sum	2861.55 Sum	173.16 Sum	2.59 Sum	41.13 Sum	0.21
Count	10.00 Count	10.00 Count	10.00 Count	10.00 Count	10.00

Interpretation: The data analysis shows an average stock price of ₹286.15, with moderate volatility (range of ₹320.97). The EPS stands at ₹17.32, indicating stable earnings, while the dividend payout ratio is 26%, suggesting a balanced approach between reinvestment and shareholder returns. The dividend per share averages ₹4.11, and the dividend yield is 2%, making it a moderate income - generating stock. The negative kurtosis indicates a more uniform data distribution with fewer extreme values.

Correlation Analysis

Large Cap	
Particular	***Result***
EPS and Share Price	0.97
DPS and Share Price	0.97
DPO % and Share Price	0.93
Dividend Yield and Share Price	0.71

Interpretation: In large - cap companies, EPS and share price have a very strong positive correlation (0.97), highlighting the significant role of profitability in stock valuation. Similarly, DPS also shows a strong correlation of 0.97 with share price, indicating that investors prioritize stable dividends. The Dividend Payout Ratio (DPO%) and share price share a strong positive correlation (0.93), suggesting that higher dividend distributions contribute to higher stock prices. However, the correlation between dividend yield and share price is somewhat lower (0.71), indicating that while dividend yield is a factor, investors place greater emphasis on earnings growth and absolute dividend payouts.

Mid Cap	
Particular	*Result*
EPS and Share Price	0.74
DPS and Share Price	0.76
DPO % and Share Price	0.07
Dividend Yield and Share Price	- 0.14

Interpretation: For mid - cap companies, the correlation between EPS and share price is 0.74, indicating a strong positive relationship, though not as dominant as in large - cap firms. Investors value EPS, but other factors also influence stock prices. DPS and share price have a correlation of 0.76, suggesting that dividends are important to mid - cap investors, though growth potential is likely a larger factor. The correlation between the Dividend Payout Ratio (DPO%) and share price is weak (0.07), indicating that mid - cap investors prioritize earnings growth and reinvestment over high payout ratios. Finally, the correlation between dividend yield and share price is - 0.14, suggesting that mid - cap stocks with higher yields may be viewed as riskier, with investors favoring capital appreciation over dividend income.

Regression Analysis

Large Cap
EPS and Share Price

Regression Statistics	
Multiple R	0.9727889
R Square	0.9463182
Adjusted R Square	0.9396079
Standard Error	83.4650133
Observations	10

Interpretation: The regression analysis conducted on Large - Cap companies provides compelling evidence that Earnings Per Share (EPS) has a strong and statistically significant impact on stock prices. The R - Square value of 0.946 (94.6%) indicates that nearly 95% of the variation in stock prices can be explained by changes in EPS alone, leaving only a small percentage of variance attributable to other factors. This suggests that EPS is a highly influential predictor in determining stock prices within Large - Cap companies. The Multiple R value of 0.973 further supports this finding by showing a strong positive correlation between EPS and stock price movements, reinforcing the idea that as EPS increases, stock prices tend to rise accordingly.

DPS and Share Price

Regression Statistics	
Multiple R	0.969911606
R Square	0.940728524
Adjusted R Square	0.93331959
Standard Error	87.70283034
Observations	10

Interpretation: The regression analysis for Large - Cap companies shows a very strong and statistically significant relationship between Dividend Per Share (DPS) and stock price. With an R - Square of 94.07%, DPS alone explains most of the variation in stock prices. The Multiple R value of 0.9699 confirms a strong positive correlation, and the Adjusted R - Square of 93.33% indicates the model remains highly reliable even after adjustments, emphasizing the key role of dividends in Large - Cap stock valuation.

Dividend Payout and Share Price

Regression Statistics	
Multiple R	0.928095357
R Square	0.861360992
Adjusted R Square	0.844031116
Standard Error	134.1323272
Observations	10

Interpretation: The regression analysis results indicate a strong relationship between Dividend Payout and Share Price.

The Multiple R value of 0.928 suggests a high degree of correlation, meaning that changes in the dividend payout ratio significantly influence share price movements. Furthermore, the R - Square value of 0.861 implies that 86.1% of the variation in share prices can be explained by changes in the dividend payout ratio, demonstrating a strong predictive power of this variable.

Dividend Yield and Share Price

Regression Statistics	
Multiple R	0.710573818
R Square	0.504915151
Adjusted R Square	0.443029545
Standard Error	253.4723295
Observations	10

Interpretation: The regression analysis examines the relationship between Dividend Yield and Share Price, revealing a moderate correlation between the two variables. The Multiple R value of 0.711 indicates a positive correlation, suggesting that as dividend yield increases, the share price tends to rise, though not as strongly as in the dividend payout model. The R - Square value of 0.505 shows that 50.49% of the variation in share prices can be explained by changes in dividend yield, meaning other factors contribute significantly to share price movements.

Mid Cap
EPS and Share Price

Regression Statistics	
Multiple R	0.744436856
R Square	0.554186233
Adjusted R Square	0.498459512
Standard Error	67.47545334
Observations	10

Interpretation: The regression analysis examining the relationship between Earnings Per Share (EPS) and Stock Price for Mid - Cap companies shows a moderate positive correlation, as indicated by the R - Square value of 0.5542 (55.42%). This means that EPS explains about 55% of the variation in stock prices, while the remaining portion is influenced by other factors such as market conditions, industry performance, and investor sentiment. The Multiple R value of 0.7444 further supports this moderate relationship, suggesting that while EPS impacts stock price movements, other variables also play a role. The Adjusted R - Square of 0.4985 (49.85%) indicates that after adjusting for degrees of freedom, the model still holds statistical significance but loses some explanatory power.

DPS and Share Price

Regression Statistics	
Multiple R	0.757252137
R Square	0.573430798
Adjusted R Square	0.520109648
Standard Error	66.00302213
Observations	10

Interpretation: The regression analysis assessing the relationship between Dividend Per Share (DPS) and Stock Price for Mid - Cap companies reveals a moderate to strong positive correlation. The R - Square value of 0.5734 (57.34%) suggests that DPS accounts for approximately 57% of the variation in stock prices, while the remaining 43% is influenced by other market factors, economic conditions, and investor sentiment. The Multiple R value of 0.7573 further supports this relationship, indicating that DPS has a notable impact on stock price fluctuations. The Adjusted R - Square of 0.5201 (52.01%) is slightly lower than the R - Square, meaning that while the model remains reliable, the introduction of additional factors could improve its explanatory power.

Dividend Payout and Share Price

Regression Statistics	
Multiple R	0.070316063
R Square	0.004944349
Adjusted R Square	- 0.119437608
Standard Error	100.8074801
Observations	10

Interpretation: The regression analysis between Dividend Payout and Share Price indicates a weak correlation between the two variables. The Multiple R value of 0.07 suggests almost no relationship, and the R - Square value of 0.0049 means that only 0.49% of the variation in share prices can be explained by dividend payout. This implies that dividend payout is not a significant factor influencing share price movements.

Dividend Yield and Share Price

Regression Statistics	
Multiple R	0.14057507
R Square	0.01976135
Adjusted R Square	- 0.102768481
Standard Error	100.0541218
Observations	10

Interpretation: The regression analysis between Dividend Yield and Share Price shows a very weak correlation, with a Multiple R value of 0.14. The R - Square value of 0.019 indicates that only 1.97% of the variation in share price can be explained by dividend yield, meaning that dividend yield has an insignificant impact on stock price movements.

5. Findings

EPS has a stronger and more direct impact on stock prices in Large - Cap companies due to their stable earnings and mature business models. In contrast, Mid - Cap stock prices are influenced by other factors like growth potential and market sentiment, making the EPS relationship weaker.

DPS shows a strong correlation with stock prices in both Large - Cap and Mid - Cap firms, but the effect is slightly stronger in Mid - Caps. For these companies, dividends signal financial strength, which builds investor confidence.

The Dividend Payout Ratio (DPO) does not significantly affect stock prices in either category. Investors seem to prioritize total earnings and actual dividend amounts over payout proportions.

Dividend Yield has a moderate impact on stock prices in Large - Cap companies, as investors value steady income. However, it has little effect in Mid - Caps, where investors are more focused on future growth.

6. Conclusion

The comparative analysis of Large - Cap and Mid - Cap companies reveals significant differences in how financial metrics, such as Earnings Per Share (EPS), Dividends Per Share (DPS), Dividend Payout Ratio (DPO), and Dividend Yield, impact stock prices. These differences primarily stem from the varying investment objectives, risk profiles, and growth stages of investors in each market capitalization category.

For Large - Cap companies, investors are primarily focused on stability, earnings performance, and consistent dividend payouts. Metrics such as EPS and DPS are strongly correlated with stock price

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